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TO ALL AMERICAN REPUBLIC DIPLOMATIC POSTS

USCINCSO

C O N F I D E N T I A L STATE 064025

FOLLOWING REPEAT STATE 064025 SENT TOKYO DATED MAR 21.

QUOTE

C O N F I D E N T I A L STATE 064025

E.O. 11652: GDS

TAGS: PFORJA

SUBJECT: PLANNING TALKS PAPER ON UNITED STATES FOREIGN

ECONOMIC POLICY: THE IMPERATIVES OF ECONOMIC

INTERDEPENDENCE

1. THIS PAPER WAS PREPARED IN THE DEPARTMENT OF STATE
PLANNING STAFF. IT HAS NOT BEEN OFFICIALLY CLEARED WITHIN
THE DEPARTMENT. IT REPRESENTS THE VIEWS OF THE AUTHOR.

2. BEGIN TEXT: SINCE WORLD WAR II, THE ECONOMIES OF THE
WORLD HAVE GROWN VERY RAPIDLY, AT A RATE FAR EXCEEDING THAT
OF ANY PRIOR HISTORICAL PERIOD. THIS RAPID GROWTH HAS BEEN
THE RESULT OF ALMOST 30 YEARS OF PEACE AMONG THE MAJOR
POWERS, AN EXPLOSION OF TECHNOLOGY, AND A REVOLUTION IN THE
DEVELOPMENT OF RAPID, WORLD-WIDE TRANSPORTATION AND COMMUNI-
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CATION NETWORKS.

3. WE HAVE ALSO COME A LONG WAY POLITICALLY OVER THE LAST
FEW DECADES. MUCH OF EUROPE, POLITICALLY UNSTABLE AND ON

THE VERGE OF ECONOMIC RUIN AFTER THE WAR, HAS ACHIEVED CONSIDERABLE COOPERATION AND DEVELOPED STRONG POLITICAL INSTITUTIONS.

4. AT THE PRESENT TIME WE HAVE REACHED AN IMPORTANT TURNING POINT. WE ARE IN THE MIDST OF A VERY SERIOUS RECESSION, THE WORST SINCE WORLD WAR II. DOMESTIC SUPPORT OF MANY EUROPEAN POLITICAL LEADERS IS ENDANGERED. THE CONFIDENCE OF THE DEVELOPED COUNTRIES TO CONTROL THEIR OWN DESTINY HAS BEEN SHAKEN, FIRST BY THE ENERGY CRISIS, AND SECOND BY THE DEEP RECESSION THAT THE SHARP RISE IN OIL PRICES HELPED PERCIPITATE.

5. IT IS AGAINST THIS BACKGROUND THAT WE MUST VIEW UNITED STATES GLOBAL ECONOMIC POLICIES, PARTICULARLY OUR ENERGY POLICIES. STRENGTHENED ECONOMIC TIES CAN REINFORCE OUR POLITICAL ALLIANCE WITH EUROPE AND JAPAN. OUR SUCCESS IN ACHIEVING PEACE IN THE MIDDLE EAST AND ELSEWHERE IS DEPENDENT ON THE COHESIVENESS OF THAT ALLIANCE STRUCTURE. OUR LONGER RUN RELATIONSHIPS WITH THE COMMUNIST COUNTRIES AND THE THIRD WORLD WILL EVOLVE MOST SATISFACTORILY IF THE DEVELOPED, NON-COMMUNIST COUNTRIES ARE STRONG, PROSPEROUS, AND SUPPORTIVE OF EACH OTHER. MORE COOPERATIVE ECONOMIC INTERACTION WITH THE COMMUNIST NATIONS MAY MAKE US SUPPORTIVE OF EACH OTHER'S ECONOMIC GOALS AND HEIGHTEN THE DESIRE TO RESOLVE POLITICAL DIFFERENCES. CLOSER ECONOMIC RELATIONSHIPS BETWEEN THE UNITED STATES AND THE THIRD WORLD MAY REDUCE POLITICAL CONFRONTATION ON THIRD WORLD ISSUES AND ON THE NEW INTERNATIONAL ECONOMIC ORDER.

6. I. GROWTH OF ECONOMIC INTERDEPENDENCE

A CENTRAL FACT AFFECTING OUR LONG-RUN INTERNATIONAL ECONOMIC POLICIES IS THE GROWING INTERDEPENDENCE OF OUR ECONOMIES. WORLD TRADE HAS GROWN FASTER THAN WORLD GNP SO THAT OUR ECONOMIES ARE INCREASINGLY TRADE DEPENDENT. EVEN THOUGH THE RATIO OF TRADE TO GNP IS STILL FAIRLY CONFIDENTIAL

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LOW IN THE UNITED STATES, THE RECENT OIL AND FOOD PRICE RISES HAVE DEMONSTRATED THAT THE U.S. PRICE STRUCTURE AND ECONOMIC PERFORMANCE ARE INCREASINGLY INFLUENCED BY EVENTS OUTSIDE OF OUR COUNTRY BECAUSE OF OUR GROWING TRADE LINKS.

7. MONEY AND CAPITAL MARKETS ARE FAR MORE INTEGRATED THAN THEY EVER HAVE BEEN, DUE IN LARGE PART TO THE GROWTH OF INTERNATIONAL BANKING AND THE EMERGENCE OF EURO CURRENCY MARKETS. CAPITAL, TECHNOLOGY, MANAGEMENT, AND TO A LESSER EXTENT, LABOR HAVE BECOME INCREASINGLY MOBILE INTERNATIONALLY. THE MULTINATIONAL CORPORATION HAS BEEN A VERY IMPORTANT FACTOR IN THIS INCREASED MOBILITY.

8. THE RESULT OF THIS INCREASED INTERDEPENDENCE IS CONSIDERABLY MORE RAPID AND STRONGER TRANSMISSION OF ECONOMIC DISTURBANCES FROM COUNTRY TO COUNTRY. INFLATION AND RECESSION ARE TRANSMITTED VERY QUICKLY AND THE BUSINESS CYCLE HAS BECOME INCREASINGLY SYNCHRONIZED AMONG COUNTRIES. SUPPLY BOTTLENECKS IN RAW MATERIALS AND BASIC MANUFACTURED GOODS RESULT VERY QUICKLY IN PRICE INCREASES AND INCREASED EXPORT DEMAND WORLD-WIDE. SIMILARLY, OVERSUPPLY OF THESE SAME ITEMS IS OFTEN QUICKLY TRANSLATED INTO PRICE DECLINES AND REDUCED GLOBAL DEMAND FOR EXPORTS.

9. THE TREND TOWARD ECONOMIC INTERDEPENDENCE HAS INCREASINGLY INVOLVED THE LESS DEVELOPED COUNTRIES. NEW INTERMEDIATE ECONOMIC POWERS HAVE EMERGED. THE MOST CONSPICUOUS OF THESE ARE THE NEW OIL RICH. ALSO WE MUST RECOGNIZE THE EMERGENCE OF NEW TRADING CENTERS SUCH AS BRAZIL, MEXICO, KOREA AND TAIWAN THAT ARE BECOMING MAJOR FACTORS IN WORLD TRADE.

10. II. PROBLEMS AND OPPORTUNITIES OF INTERDEPENDENCE

INCREASED ECONOMIC INTERDEPENDENCE IS A FACT--A CONDITION RATHER THAN AN OBJECTIVE. ECONOMIC INTERDEPENDENCE DOES NOT NECESSARILY REDUCE THE LEVEL OF POLITICAL CONFLICT AMONG NATIONS. IT MAY EVEN INCREASE THE LEVEL OF CONFLICT BY PROVIDING MORE POINTS OF CONTACT IN WHICH PERCEPTIONS OF INTERESTS MAY DIVERGE. INTERDEPENDENCE REQUIRES, HOWEVER, MORE COORDINATION AND COOPERATION AMONG NATIONS.
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11. INTERDEPENDENCE COULD BE RESISTED, FOR EXAMPLE, BY ERECTING BARRIERS TO TRADE AND CAPITAL FLOWS. BUT THESE BARRIERS CAN BE ERECTED ONLY AT GREAT POLITICAL AND ECONOMIC COST. WE CANNOT, THEREFORE, USE SUCH BARRIERS EASILY TO TURN THE TIDE OF GROWING INTERDEPENDENCE. THE CENTRAL QUESTION THEN BECOMES: HOW CAN WE RESTRUCTURE OUR INSTITUTIONS TO ASSURE MORE COOPERATIVE AND MUTUALLY BENEFICIAL APPROACHES TO THE COMMON PROBLEMS THRUST ON US BECAUSE OF GROWING INTERDEPENDENCE.

12. II.1 STRAINS ON INTERNATIONAL ECONOMIC INSTITUTIONS
THE PROBLEMS POSED BY INTERDEPENDENCE ARE REFLECTED IN THE INCREASING STRAINS BEING PUT ON OUR INTERNATIONAL ECONOMIC INSTITUTIONS. AFTER WORLD WAR II, WE WENT THROUGH A MAJOR RESTRUCTURING OF THESE INSTITUTIONS UNDER THE FRAMEWORK SET BY THE 1944 AGREEMENT AT BRETTON WOODS. BUT THE INSTITUTIONS ARE NOT WORKING IN QUITE THE WAY THEY WERE ORIGINALLY ENVISIONED.

13. THE UNITED NATIONS HAS PLAYED A USEFUL ROLE ON MANY INTERNATIONAL ECONOMIC PROBLEMS. UNFORTUNATELY AS TIME PASSES, THE INSTITUTION HAS BECOME INCREASINGLY POLITICIZED

AND UNWIELDY AS A FORUM FOR WORKING OUT CONSTRUCTIVE SOLUTIONS TO ECONOMIC PROBLEMS.

14. THE WORLD BANK AND THE REGIONAL DEVELOPMENT BANKS HAVE PLAYED AN EXTREMELY USEFUL ROLE IN CHANNELING RESOURCES INTO LESS DEVELOPED COUNTRIES. BUT IT HAS BECOME INCREASINGLY DIFFICULT TO REPLENISH THEIR CONCESSIONAL LOAN FUNDS WHICH PLAY A VITAL ROLE FOR THE POOREST OF THE LESS DEVELOPED COUNTRIES.

15. THE INTERNATIONAL MONETARY FUND WAS DESIGNED FOR A WORLD OF ADJUSTABLE BUT RELATIVELY FIXED EXCHANGE RATES. BUT AS WE HAVE MOVED TO A MORE FLEXIBLE SITUATION, THE ROLE OF THE FUND HAS BECOME LESS CLEAR. FOR SOME TIME THE FUND WAS THE FOCUS OF MONETARY REFORM EFFORTS, BUT THE MOVE TOWARD MORE FLEXIBLE EXCHANGE RATES HAS DIMINISHED THESE EFFORTS.

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16. THE GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT) HAS WORKED WELL THROUGHOUT MUCH OF THE POST-WAR PERIOD FOR TARIFF LIBERALIZATION EFFORTS. BUT, OF COURSE, TARIFFS ARE NO LONGER THE KEY ISSUE IN INTERNATIONAL TRADE POLICY. NON-TARIFF BARRIERS AND COMMODITY PROBLEMS HAVE COME TO THE FORE. THE TOKYO ROUND OF MULTILATERAL TRADE NEGOTIATIONS IN GENEVA PROVIDES AN IMPORTANT TEST FOR THE GATT, AS IT WILL HAVE TO ACHIEVE PROGRESS ON NON-TARIFF BARRIERS AND COMMODITIES IF THE MOMENTUM TOWARD MORE LIBERAL WORLD TRADE IS TO BE MAINTAINED. IF LITTLE PROGRESS IS MADE, THERE IS A GREAT DANGER THAT THE INDUSTRIALIZED NATIONS OF THE WORLD WILL BACKSLIDE TOWARD PROTECTIONISM.

17. THE ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT HAS PERFORMED MANY IMPORTANT INTEGRATIVE FUNCTIONS BUT IT HAS NOT BECOME THE FRAMEWORK FOR CLOSE COORDINATION OF ECONOMIC POLICY THAT SOME PEOPLE HAD HOPED. THOSE HOPES ARE REFLECTED IN THE COMMITTEE STRUCTURE, PARTICULARLY THE ECONOMIC POLICY COMMITTEE AND ITS WORKING PARTIES. EXCEPT FOR WORKING PARTY III, HOWEVER, MEETINGS OF THE WORKING PARTIES HAVE INVOLVED LITTLE OTHER THAN INFORMATION EXCHANGE.

18. NOW THAT WE ARE IN THE MIDST OF A SERIOUS WORLD-WIDE RECESSION, THE NEED TO COORDINATE AND COOPERATE IN THE PURSUIT OF OUR NATIONAL ECONOMIC POLICIES AND IN OUR BALANCE OF PAYMENTS ADJUSTMENT POLICIES IS GREATER THAN EVER.

OUR PROBLEMS ARE EXACERBATED BY THE LARGE AND GROWING ACCUMULATION OF OPEC FUNDS, MOST OF THEM HELD IN SHORT-TERM, POTENTIALLY HIGHLY MOBILE DEPOSITS THAT THREATEN THE LIQUIDITY OF OUR INTERNATIONAL BANKING SYSTEM. INCREASING

INSTABILITY IN CAPITAL MOVEMENTS AND IN EXCHANGE RATES
THREATEN TO BE THE UNDOING OF OUR ENTIRE INTERNATIONAL
ECONOMIC SYSTEM.

19. THE STRAINS ON THESE INTERNATIONAL INSTITUTIONS SUG-
GEST SOME POSSIBLE PRIORITIES FOR REFORM. CAN THE UNITED
NATIONS BE RESTRUCTURED SO THAT IT PERFORMS A MORE CON-
STRUCTIVE ROLE IN THE MAKING OF INTERNATIONAL ECONOMIC
POLICIES? HOW CAN WE AND SHOULD WE ENGINEER MONETARY
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REFORM? IS THERE A NEED FOR A NEW INSTITUTIONAL STRUCTURE
TO DEAL WITH COMMODITY ISSUES?

20. II.2 INTERDEPENDENCE AND THE COMMUNIST COUNTRIES:
MOST OF THE INCREASED INTERDEPENDENCE WE HAVE WITNESSED
SINCE WORLD WAR II HAS NOT INVOLVED MOST OF THE COMMUNIST
COUNTRIES. MOST ARE NOT ASSOCIATED WITH THE MULTILATERAL
ECONOMIC INSTITUTIONS WHICH GOVERN TRADE, FOREIGN
EXCHANGE, AND CAPITAL FLOWS AMONG NATIONS. ALTHOUGH TRADE
WITH RUSSIA HAS BEEN SET BACK SOMEWHAT BY THE UNFORTUNATE
RESPONSE TO THE TRADE ACT OF 1974, WE HOPE AND EXPECT THAT
CLOSER TRADE AND MONETARY TIES WILL GRADUALLY EMERGE.
ECONOMIC INTERCHANGE HAS JUST BEGUN WITH THE PEOPLES
REPUBLIC OF CHINA.

21. SHOULD WE ATTEMPT TO INTEGRATE THE COMMUNIST NATIONS
MORE INTO THE INTERNATIONAL ECONOMIC SYSTEM, OR WILL THEIR
PARTICIPATION BE DISRUPTIVE AND TEND TO TURN THE WESTERN
NATIONS AGAINST EACH OTHER? OR SHOULD WE ATTEMPT TO
INVOLVE THE COMMUNIST COUNTRIES IN COOPERATIVE APPROACHES
IN VERY LIMITED AREAS--THOSE AREAS IN WHICH THE PROBLEMS
ARE GREATEST AND THE OPPORTUNITIES MOST CLEAR (SUCH AS
FOOD)?

22. II.3 THE LESS DEVELOPED COUNTRIES:
THE THIRD WORLD BLOC HAS LITTLE VALIDITY AS AN ECONOMIC
ENTITY. MOST OF THE ECONOMIC TIES OF THE LESS DEVELOPED
COUNTRIES ARE WITH DEVELOPED NATIONS, ALTHOUGH REGIONAL
INTEGRATION SCHEMES IN LATIN AMERICA AND THE CARIBBEAN
HAVE FORGED SOME TIES AMONG THE LDCS. THE ECONOMIES OF
THE THIRD WORLD COUNTRIES ARE VERY DIFFERENT AND THEIR
ECONOMIC INTERESTS ARE FAR MORE DIVERGENT THAN THEY ARE
SIMILAR. YET THE LESS DEVELOPED COUNTRIES TEND TO STAY

TOGETHER AS A BLOC IN NEARLY ALL MULTILATERAL INSTITUTIONS.
ON POLITICAL AND ECONOMIC ISSUES, THEY ARE SUPPORTIVE OF
EACH OTHER, EVEN WHEN CLEARLY THE ACTIONS OF SOME OF THEM
CAUSE ECONOMIC HARDSHIPS TO OTHERS AS HAS BEEN THE CASE IN
THE RECENT OIL CRISIS. WHAT UNITES THE THIRD WORLD IN
THEIR OPPOSITION TO AND RESENTMENT OF THE DEVELOPED NATIONS
ARE A SENSE OF INJUSTICE IN PAST HISTORY, AND A FEELING

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THAT THEIR UNITY PROVIDES THE ONLY HOPE OF AFFECTING ANY CHANGES IN THEIR RELATIONSHIPS WITH THE MAJOR ECONOMIC POWERS. THE BINDING FORCES ARE VERY STRONG INDEED.

22. THE THIRD WORLD COUNTRIES ARE ESCALATING THEIR DEMANDS FOR GREATER POWER AND PARTICIPATION IN THE INTERNATIONAL ECONOMIC SYSTEM. DIFFICULT POLICY CHOICES MUST BE MADE BY THE ADVANCED NATIONS CONCERNING HOW AND WHETHER THESE DEMANDS ARE TO BE MET.

23. FOR EXAMPLE, CAN WE STALL INDEFINITELY IN MEETING THEIR DEMANDS. SHOULD WE SIMPLY STRENGTHEN THE INSTITUTIONS INVOLVING THE ADVANCED INDUSTRIAL NATIONS AND PURPOSEFULLY EXCLUDE THE LESS DEVELOPED NATIONS AS PARTICIPANTS IN THE SOLUTION OF INTERNATIONAL ECONOMIC PROBLEMS?

24. SHOULD WE ATTEMPT TO ENGAGE MORE CONSTRUCTIVELY SELECTED MEMBERS OF THE THIRD WORLD GROUP INTO OUR INTERNATIONAL INSTITUTIONS AND IN THE SEARCH FOR SOLUTIONS TO INTERNATIONAL ECONOMIC PROBLEMS? SHOULD WE ACCEDE TO SOME OF THE DEMANDS FOR PARTICIPATION OF THE LESS DEVELOPED COUNTRIES UNDER THE ASSUMPTION THAT THEIR RISE TO POWER AND PARTICIPATION IS INEVITABLE, BUT ATTEMPT TO COOPT OR SPLIT OFF THOSE COUNTRIES FROM THE THIRD WORLD BLOC WHO HAVE THE GREATEST POWER OR POTENTIAL FOR POWER?

25. OR SHOULD WE ACCEDE TO THIRD WORLD DEMANDS ON THE BASIS THAT THE THIRD WORLD CLAIMS CONSTITUTE A MORAL IMPERATIVE--THAT THEY HAVE BEEN EXPLOITED IN THE PAST AND THE INDUSTRIALIZED WORLD SHOULD MAKE UP FOR PAST MISTAKES?

26. III. THE SEARCH FOR A STRATEGY
ONE OF THE MOST SERIOUS DIFFICULTIES IN FOREIGN ECONOMIC POLICY FORMULATION IS THE NEED TO STRIKE A BALANCE BETWEEN EFFORTS AT SYSTEMIC CHANGE AND SOLUTION TO PRACTICAL, DAY-TO-DAY PROBLEMS. SYSTEMIC CHANGE IS MORE LIKELY DURING CRISIS PERIODS SUCH AS A SERIOUS WORLD-WIDE DEPRESSION OR IN THE AFTERMATH OF A MAJOR UPHEAVAL LIKE A WORLD WAR. IN CRISIS PERIODS, STRAIN ON INSTITUTIONS ARE MOST APPARENT. CRISES BREED FEARS OF ECONOMIC DISASTER UNLESS SOMETHING DRAMATIC IS DONE. WE ARE NOW IN WHAT COULD BE
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A CRISIS PERIOD. THUS IT MAKES SENSE TO THINK MORE ABOUT THE KINDS OF SYSTEMIC CHANGE THAT WE WOULD LIKE TO SEE.

27. TWO STRATEGIC ISSUES THAT MUST BE CONSIDERED IN ANY DISCUSSION OF SYSTEM CHANGE:

1) WHAT GROUPINGS OF NATIONS SHOULD BE CONSIDERED IN WORKING TOWARD SOLUTIONS OF ECONOMIC PROBLEMS; AND

2) WHAT ARE THE PRIORITY ISSUES TO BE ADDRESSED.

28. III.1 ECONOMIC BLOCS AND COMMUNITIES OF INTEREST:
THE CHOICE OF COUNTRY GROUPS IS OFTEN POSED AS A CHOICE BETWEEN BILATERALISM, REGIONALISM OR MULTILATERALISM.

29. TRADITIONALLY, THE UNITED STATES HAS PREFERRED MULTILATERAL APPROACHES TO ECONOMIC PROBLEMS, PARTICULARLY IN THE AREA OF INTERNATIONAL TRADE. BUT WE NEED TO ASK: HOW FAR IS MULTILATERALISM TO BE CARRIED? FOR EXAMPLE, SHOULD WE SEEK A MORE INTERDEPENDENT WORLD ON A GLOBAL BASIS, TRYING TO INTEGRATE THE LESS DEVELOPED NATIONS AND THE COMMUNIST NATIONS INTO A MUTUALLY DEPENDENT WORLD-WIDE ECONOMIC SYSTEM? OR SHOULD WE FOCUS OUR EFFORTS ON LINKING THE INDUSTRIALIZED NATIONS OF EUROPE, NORTH AMERICA AND JAPAN?

30. WE MIGHT INSTEAD GIVE STIMULUS TO A BLOC SYSTEM WITH NORTH AND SOUTH AMERICA AS ONE BLOC, EUROPE AND THE 46 ASSOCIATED AFRICAN, PACIFIC AND CARIBBEAN COUNTRIES AS ANOTHER, JAPAN AND SOME NEIGHBORING ASIAN COUNTRIES AS ANOTHER AND THE COMMUNIST COUNTRIES AS ANOTHER.

31. SOME ANALYSTS HAVE ALSO SUGGESTED A PACIFIC BASIN ORIENTATION FOR A BLOC THAT WOULD INCLUDE SOME LATIN AMERICAN COUNTRIES, THE UNITED STATES, CANADA, JAPAN AND THE SOUTH PACIFIC COUNTRIES. BRAZIL, ARGENTINA AND AFRICAN COUNTRIES WOULD LOOK TOWARD EUROPE WITH THIS KIND OF BLOC ORIENTATION.

32. STILL OTHERS HAVE SUGGESTED THAT THE UNITED STATES
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SHOULD SEEK A CLOSE ALLIANCE WITH GERMANY ON ECONOMIC MATTERS. THESE TWO COUNTRIES POSSESS THE STRONGEST CURRENCIES, THE BEST DEVELOPED CAPITAL MARKETS, AND A VERY LARGE SHARE OF WORLD TRADE AND GROSS NATIONAL PRODUCT. TOGETHER THEY COULD EXERT ENORMOUS INFLUENCE ON THE ECONOMIES OF THE INDUSTRIALIZED NATIONS.

33. ANOTHER SUGGESTION HEARD SOMETIMES IS THAT THE UNITED STATES, GERMANY, AND JAPAN SHOULD COOPERATE CLOSELY ON ECONOMIC MATTERS. THEIR INFLUENCE TOGETHER WOULD BE SO PREDOMINANT THAT THE ECONOMIC HEALTH OF THE NON-COMMUNIST WORLD WOULD BE ALMOST ENTIRELY DETERMINED BY THEIR ACTIONS.

34. FINALLY, THERE IS THE VIEW THAT NO ONE GROUPING SHOULD PREDOMINATE. RATHER, WE SHOULD RECOGNIZE THAT THE

OPTIMAL GROUPING OF COUNTRIES DEPENDS ON THE FUNCTIONAL AREA IN WHICH COOPERATION IS DESIRED. WE SHOULD DEFINE FOR EACH FUNCTIONAL AREA A GROUP OF COUNTRIES THAT POSSESS A COMMUNITY OF INTERESTS. FOR EXAMPLE, IN MONETARY REFORM, COUNTRIES WITH THE STRONGEST CURRENCIES AND STRONGEST RESERVE POSITION WOULD NEED TO COOPERATE. THIS MIGHT INCLUDE COUNTRIES SUCH AS SAUDI ARABIA AND IRAN. IF FOOD IS THE ISSUE, THEN MAJOR PRODUCERS AND CONSUMERS SHOULD TAKE PART IN DISCUSSIONS AND THIS WOULD INCLUDE RUSSIA, ARGENTINA, AND INDIA. IF INDUSTRIAL POLICIES WERE THE TOPIC, ONLY THE MOST INDUSTRIALLY ADVANCED NATIONS SHOULD TAKE PART. THIS APPROACH IMPLIES THE NEED FOR:

1) AD HOC GROUPINGS OF COUNTRIES DEPENDING ON THE FUNCTIONAL ISSUE TO BE ADDRESSED; OR

2) FUNCTIONALLY ORIENTED INTERNATIONAL INSTITUTIONS.

PURELY POLITICAL OR REGIONAL GROUPINGS WOULD BE DOWNPLAYED.

35. III.2 THE ISSUES:

SYSTEMATIC CHANGE NEEDS FOCUS ON KEY ISSUES AND PROBLEMS. OVER THE LONG RUN, WE SEE THAT THERE ARE SEVEN BASIC STRATEGIC ISSUES FOR WHICH CONSTRUCTIVE PROPOSALS FOR CHANGE ARE NEEDED. THESE ARE:

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1) CONTINUED TRADE LIBERALIZATION;

2) SOLVING THE ENERGY PROBLEM;

3) ASSURING ADEQUATE SUPPLIES OF FOOD FOR A GROWING WORLD POPULATION;

4) PRICE STABILITY AND SECURITY OF SUPPLY FOR PRIMARY COMMODITIES;

5) INTERNATIONAL INVESTMENTS AND THE ROLE OF THE MULTINATIONAL CORPORATION;

6) INTERNATIONAL MONETARY REFORM; AND

7) COORDINATION OF MACRO-ECONOMIC POLICIES IN THE FIGHT AGAINST WORLD-WIDE RECESSION AND INFLATION.

1. TRADE. THE UNITED STATES HAS LONG BEEN COMMITTED TO CONTINUED TRADE LIBERALIZATION. WITH THE PASSAGE OF THE TRADE ACT OF 1974, THE UNITED STATES EXPECTS TO PLAY AN IMPORTANT ROLE IN SUPPORTING FURTHER TRADE LIBERALIZATION. IN ADDITION TO FOCUSING ON NON-TARIFF BARRIERS AND RULES REGARDING TRADE IN COMMODITIES, THE MULTILATERAL TRADE

NEGOTIATIONS OUGHT BE ACHIEVE INTERNATIONAL AGREEMENT ON SAFEGUARDS AND ON COUNTERVAILING MEASURES.

2. ENERGY. IN THE LAST YEAR AND A HALF, THE UNITED STATES HAS PUT CONSIDERABLE STRESS ON ENERGY POLICY. THE U.S. POSITION ON THIS ISSUE IS WELL KNOWN. PRIMARY STRESS HAS BEEN PLACED ON CONSUMER SOLIDARITY TO MAKE DIALOGUE WITH PRODUCERS MORE FRUITFUL. IN GOOD MEASURE SOLIDARITY HAS BEEN ACHIEVED ON EMERGENCY SHARING, FINANCIAL SAFETY NET AND CONSERVATION. MORE PROGRESS IS NEEDED ON COOPERATIVE DEVELOPMENT OF NEW ENERGY SUPPLIES.

3. FOOD. THE UNITED STATES FOOD STRATEGY IS GROUNDED IN BOTH POLITICAL AND HUMANITARIAN CONSIDERATIONS. WE WISH TO PRESERVE, AND INDEED ACCELERATE, THE INTERNATIONAL MOMENTUM BEGUN AT THE WORLD FOOD CONFERENCE IN ROME, TO MEET THE GROWING CONCERN OVER ADEQUATE FOOD SUPPLIES FOR CONFIDENTIAL

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THE LONGER RUN. SINCE THE UNITED STATES IS THE WORLD'S LARGEST FOOD PRODUCER, THE OBLIGATION UPON US FOR IMAGINATIVE INTERNATIONAL LEADERSHIP IS IMPERATIVE. HOWEVER, UNLIKE ENERGY, EXERCISE OF THAT LEADERSHIP DEPENDS LESS ON WHAT WE DO DOMESTICALLY THAN WHAT WE MUST GET OTHER COUNTRIES TO DO ON THEIR OWN AGRICULTURAL POLICIES. OUR ROLE IS MAINLY THAT OF CATALYST, PRECIPITATING COOPERATIVE INTERNATIONAL EFFORTS TO COPE WITH THE NATIONAL PROBLEMS OF OTHERS.

4. COMMODITIES. WHILE THE UNITED STATES HAS TAKEN A LEADING ROLE ON TRADE, ENERGY, AND FOOD ISSUES, OUR ATTITUDE TOWARD TRADE IN PRIMARY COMMODITIES AND PARTICULARLY COMMODITY AGREEMENTS HAS BEEN QUITE RESTRAINED. BUT THE ENERGY CRISIS AND THE FOOD PROBLEM BOTH STIMULATE AND REFLECT THE GROWING IMPORTANCE OF COMMODITY PRICE AND SUPPLY ISSUES. TROPICAL PRODUCTS AND MINERALS TRADE ARE LIKELY TO BECOME THE CENTER OF INCREASINGLY POLITICAL CONFLICTS. DURING THE LAST YEAR AND A HALF, THERE HAVE BEEN A NUMBER OF NEW ATTEMPTS AMONG COMMODITY PRODUCERS TO ORGANIZE CARTELS OR CARTEL-LIKE ASSOCIATIONS. WHILE

IT MAY BE TRUE THAT PRODUCING COUNTRIES, PARTICULARLY LDCS, HAVE LITTLE POWER TO AFFECT PRICES OR REDUCE SUPPLIES IN THE LONG RUN, EVEN VERY SHORT-RUN PRICE MANIPULATION CAN BE DISRUPTIVE AND COSTLY. THE BOOM AND BUST PATTERN OF COMMODITY PRICES AND CONTINUED POLITICAL CONFRONTATION OVER COMMODITIES WILL DISCOURAGE INVESTMENT AND TEND TO BOTH EXACERBATE CYCLICAL SWINGS AND DRIVE LONG RUN PRICE TRENDS EVEN HIGHER. WE CANNOT DISCOUNT THE POTENTIAL POWER OF OPEC COUNTRIES TO DISRUPT COMMODITY MARKETS BY USING THEIR LARGE ACCUMULATION OF SURPLUS FOREIGN EXCHANGE. FINALLY, WE RECOGNIZE THE STRONG

IMPACT THAT THE COMMODITY ISSUES HAVE ON OUR RELATIONSHIPS WITH THE DEVELOPED OECD COUNTRIES. ALMOST ALL ARE CONSIDERABLY MORE DEPENDENT THAN WE ON IMPORTED RAW MATERIALS AND FAR MORE ANXIOUS TO WORK OUT COOPERATIVE ARRANGEMENTS BETWEEN COMMODITY PRODUCERS AND CONSUMERS. COMMODITY PROBLEMS WILL NOT BE SOLVED EITHER BY TOTAL CONTROL OR BY TOTAL LAISSEZ FAIRE. IN EACH COMMODITY WE WILL NEED TO DECIDE HOW MUCH MARKET AND PRODUCTION
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MANAGEMENT IS JUSTIFIED.

5. INTERNATIONAL INVESTMENT. THE RISE OF THE MULTINATIONAL CORPORATIONS HAS COINCIDED WITH A RISE IN NATIONALISTIC SENTIMENT IN THE LESS DEVELOPED NATIONS. THE RESULT HAS BEEN A RISING TIDE OF INVESTMENT DISPUTES, MANY OF THEM INVOLVING EXPROPRIATION.

THE PRINCIPLES OF INTERNATIONAL LAW REQUIRE QUICK AND ADEQUATE COMPENSATION FOR THE OWNERS OF EXPROPRIATED PROPERTY. INVESTMENT CAPITAL OUGHT ALSO TO BE ABLE TO MOVE FREELY FROM NATION TO NATION AND FOREIGN FIRMS INVESTING IN A COUNTRY SHOULD BE TREATED AS CLOSELY AS POSSIBLE IN THE SAME MANNER AS DOMESTIC FIRMS. FINALLY, THERE SHOULD BE MORE INTERNATIONAL COORDINATION OF NATIONAL ANTI-TRUST STATUTES AND ENFORCEMENT.

SOMETIMES, HOWEVER, MULTINATIONAL CORPORATIONS OR THEIR AGENTS BEHAVE IN WAYS THAT ARE INCONSISTENT WITH DOMESTIC LEGAL REQUIREMENTS. OFTEN THERE ARE IMBALANCES IN BARGAINING POWER THAT SOMETIMES GIVE MULTINATIONAL CORPORATIONS A SPECIAL ADVANTAGE IN MAKING DEALS THAT ARE UNFAIR TO LESS DEVELOPED HOST COUNTRIES.

THERE IS LITTLE AGREEMENT, PARTICULARLY BETWEEN DEVELOPED AND LESS DEVELOPED COUNTRIES, AS TO HOW INTERNATIONAL COOPERATION ON INVESTMENT ISSUES AND RULES GOVERNING THE BEHAVIOR OF MULTINATIONAL FIRMS OUGHT TO BE STRUCTURED.

YET THERE IS AGREEMENT THAT THERE IS A NEED FOR A MORE ORDERLY PROCESS OF INTERNATIONAL INVESTMENT AND THAT POLITICAL CONFRONTATION ON INVESTMENTS PROBLEMS IS NOT LIKELY TO DIMINISH UNLESS BETTER MEANS ARE FOUND TO RESOLVE DISPUTES.

6. MONETARY REFORM. THE MOVE FROM RELATIVELY FIXED TO RELATIVELY FLEXIBLE EXCHANGE RATES FOLLOWING THE SMITHSONIAN AGREEMENT HAS HELPED GREATLY IN THE FUNCTIONING OF THE INTERNATIONAL ECONOMIC SYSTEM. THE SYSTEM COULD NOT HAVE SURVIVED AS WELL THE SHOCKS OF THE 1973 MIDDLE EAST WAR, THE OIL EMBARGO, THE INCREASE IN ENERGY PRICES,
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THE FOOD CRISIS, THE VIOLENT SWINGS IN COMMODITY PRICES AND THE SYNCHRONIZED BOOM OF 1972-73 AND THE RECESSION OF 1974-75 WITHOUT MORE FLEXIBILITY THAN WE HAD PRIOR TO 1971. UNFORTUNATELY, HOWEVER, THE MOVE TO FLEXIBLE EXCHANGE RATES HAS TAKEN THE THRUST OUT OF MONETARY REFORM EFFORTS

FLEXIBLE EXCHANGE RATES ARE NOT A PANACEA. WE DO NOT HAVE A COMPLETELY FLEXIBLE SYSTEM. RATES ARE MANAGED BY CENTRAL BANKS. COUNTRIES CANNOT TOLERATE THE WIDE SWINGS IN EXCHANGE RATES THAT MIGHT OCCUR WITHOUT MANAGEMENT BECAUSE OF THE HAVOC THESE SWINGS WOULD WREAK ON EXPORT AND IMPORT-COMPETING INDUSTRIES. THE LACK OF MOVEMENT ON MONETARY REFORM IS UNFORTUNATE BECAUSE THE WORLD STILL NEEDS AN INTERNATIONAL RESERVE ASSET. PROGRESS MUST BE MADE ON EXTENDING THE USE OF THE SDR AS AN INTERNATIONAL RESERVE ASSET AND ON CONVERTING THE HUGE DOLLAR OVERHANG INTO SDRS SO THAT WE HAVE A BETTER CHANCE TO ACHIEVE ECONOMIC STABILITY AND FIGHT THE WORLD'S RECESSION.

7. POLICY COORDINATION. THE NEED FOR COORDINATION OF MACRO-ECONOMIC POLICIES IS ESPECIALLY GREAT GIVEN THE WORLD-WIDE RECESSION AND THE NEED TO SHARE THE OIL DEFICITS. IF THE OECD COUNTRIES RUN AN AGGREGATE OIL DEFICIT AGAINST THE OPEC COUNTRIES IT NEEDS TO BE SHARED IN SOME EQUITABLE FASHION. IF EACH COUNTRY ATTEMPTS TO BALANCE ITS CURRENT ACCOUNT RATHER THAN ACCEPT ITS FAIR SHARE OF THE DEFICIT, THE RESULT IS CERTAIN TO BE COMPETITIVE, BEGGAR-THY-NEIGHBOR BEHAVIOR.

36. IV. POINTS FOR DISCUSSION

IN ADDITION TO THE STRATEGIC ISSUES DISCUSSED ABOVE, THE FOLLOWING MORE CONCRETE QUESTIONS MAY DESERVE DISCUSSION:

-- WHAT PROGRESS CAN BE ANTICIPATED IN THE MULTILATERAL TRADE NEGOTIATIONS IN GENEVA ON NON-TARIFF BARRIERS, SAFEGUARDS, AND COUNTERVAILING DUTIES?

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-- IN WHAT MANNER SHOULD FOOD AND COMMODITY ISSUES BE ADDRESSED, SEPARATELY OR WITHIN THE MULTILATERAL TRADE NEGOTIATIONS? WHAT KINDS OF COMMODITY ARRANGEMENTS SHOULD BE NEGOTIATED?

-- SHOULD PRODUCERS AND CONSUMERS OF OIL ATTEMPT

TO OBTAIN AN AGREEMENT ON PRICE AND, IF SO, WHAT
KIND OF AGREEMENT?

-- WHAT POSSIBILITIES ARE THERE IN CONSTRUCTIVE
AGREEMENTS ON OTHER ISSUES THAT CAN BE DISCUSSED
WITH THE OIL PRODUCERS, NAMELY: AID TO LESS
DEVELOPED COUNTRIES, RECYCLING, INDUSTRIALIZA-
TION OF THE OPEC COUNTRIES, AND INWARD INVESTMENT?

-- IS IT POSSIBLE TO OBTAIN AGREEMENTS ON INVESTMENT
INCENTIVES AND TREATMENT AND ON BEHAVIOR OF MULTI-
NATIONAL CORPORATIONS? IN WHAT FORA SHOULD AGREE-
MENTS OF THIS KIND BE DISCUSSED?

-- WHAT SHOULD BE THE ROLE OF THE SDR IN MONETARY
REFORM? IS THE SDR-LINK IDEA DEAD?

-- ON WHAT BASIS AND IN WHAT MANNER CAN OR SHOULD
DOMESTIC ECONOMIC POLICIES OF THE MAJOR ECONOMIC
POWERS BE COORDINATED? INGERSOLL UNQUOTE KISSINGER

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